

Expansion of Government Programs

During Fiscal Year 1962

GOVERNMENT purchases of goods and services, mainly under the impact of expanded defense programs, are expected to play a major role in the business recovery during the current fiscal year. The 1962 Budget Review, recently released by the Bureau of the Budget, shows that Federal Govern-

chases by State and local governments, is one of the major stimuli behind the \$40-billion increase, to about \$545 billion, in the Nation's output of goods and services which underlies the Bureau of the Budget's estimates of Federal revenues and expenditures for fiscal year 1962.

Fiscal position—budget and national income bases compared

Table 1, based on the 1962 Budget Review, presents a summary of the Federal Government's receipts and expenditures in terms of the administrative budget, the cash budget, and the national income and product accounts. It will serve as a starting point for a translation of the two budgets into national income and product categories, and for a discussion of the impact of Government programs on the flow of income and production.

Total administrative budget expenditures are estimated to reach \$89 billion, an increase of \$7½ billion over fiscal year 1961, while receipts, at \$82 billion, are on the basis of advancing incomes calculated to rise by \$4½ billion. As a result, the budgetary deficit is estimated to increase by \$3 billion to a total of about \$7 billion. This compares with a \$1½ billion surplus estimated in the January Budget, when receipts were set forth at about the same total, and expenditures were projected at about \$8 billion less than the current estimate. The major differences between the two estimates of expenditures are due to increases in programs for defense, space, and international purposes, larger farm support outlays, and to anti-recession measures such as the temporary extended unemployment compensation program. Revenues are now expected to reach the January Budget estimates,

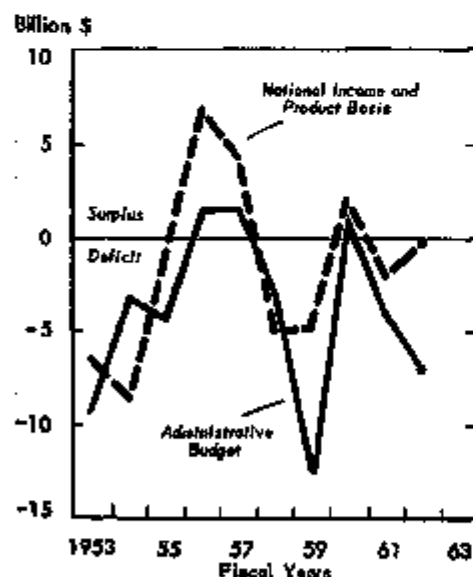
because of the vigorous recovery in business that has occurred since the beginning of the year. The fiscal and monetary policies of the Administration were an important factor in this recovery.

The cash budget differs from the conventional budget primarily because it includes trust fund transactions and not expenditures of Government-sponsored enterprises. Receipts on this basis are estimated at \$103 billion and expenditures at \$111 billion, resulting in a deficit of \$8 billion.

On national income and product account, receipts are \$2½ billion higher, while expenditures are \$5½ billion lower

FEDERAL FISCAL POSITION

- Administrative Budget Deficit of \$4.9 Billion for Fiscal Year 1962
- Translates to a Deficit of \$0.2 Billion on National Income Account Basis
- Due to Excess of Tax Accruals Over Collections in Economic Upturn and Exclusion of Loan Expenditures



• Fiscal 1962 estimate from 1962 Budget Review

U.S. Department of Commerce, Office of Business Economics

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ment purchases, on a national income and product account basis, are slated to rise by \$5 billion from the fiscal year ended last June to the fiscal year ending June 30, 1962.

This prospective rise, combined with a projected \$4-billion increase in pur-

Table 1.—Federal Government Receipts and Expenditures, 1960-62

	Fiscal years		
	1960	1961	1962, Oct. 1961 estimate
Administrative Budget:			
Receipts.....	77.8	77.6	82.1
Expenditures.....	74.0	82.5	89.0
Surplus or deficit (-).....	3.8	-4.9	-6.9
Cash Budget:			
Receipts.....	95.1	97.1	103.9
Expenditures.....	94.3	99.3	111.1
Surplus or deficit (-).....	0.8	-2.2	-7.2
National income and product account:			
Receipts.....	94.1	96.9	106.2
Expenditures.....	91.9	91.9	105.4
Surplus or deficit (-).....	2.2	5.0	0.8

Source: Bureau of the Budget; Treasury Department; and U.S. Department of Commerce, Office of Business Economics.

than on a cash basis, resulting in approximate balance for the fiscal year as a whole. The difference between the two concepts as to receipts is primarily due to timing (see table 2). The cash budget includes taxes at the time they are collected, while the national income accounts record most of them at the time the liability is incurred. Thus, changes in economic activity are re-

flected more promptly in the national income accounts and large differences may occur owing to changes in the pace of economic activity.

On the expenditure side, the major differences arise because all transactions in financial assets and liabilities—private as well as Government—are excluded from the national income accounts. These accounts register only expenditures that directly enter the income stream of the recipient. However, the effects on current economic activity of the omitted transactions in financial claims show up under the particular type of expenditure which they stimulate, such as private investment, consumption or exports.

The 1962 Budget envisages particularly large increases in financial transactions, primarily in secondary market mortgage purchases by the Federal

National Mortgage Association and in urban renewal and other housing programs. In addition many existing loan programs, especially the Small Business Administration's activities, are being expanded and new programs, such as the Area Redevelopment Agency, are starting up.

As shown in table 3, the Federal Government's deficit on national income and product account has narrowed from an annual rate of \$5½ billion in the first quarter of calendar year 1961 to about \$3 billion in the third quarter, as an increase in tax accruals brought about by the business recovery outpaced the rise in expenditures. If the fiscal year totals of the *Budget Review* are realized, the current excess of expenditures over receipts on national income and product account will be replaced by an excess of receipts

over expenditures later in the fiscal year.

Federal receipts raised by business recovery

The more than \$10 billion projected increase for fiscal 1962 in Federal receipts, on a national accounts basis, would come from all areas of Government revenues and is based upon the expectation of continued business recovery.

The 1962 Budget Review assumes a rise in personal income during the fiscal year with the total averaging \$425 billion in the second half of calendar year 1961 as against \$409 billion in the first half. (The annual rate of personal income in October was \$425 billion.) Personal taxes will rise in line with incomes and are expected to yield over \$3 billion more in fiscal 1962 than during the preceding year. Corporate profits, under the Bureau of the Budget's assumptions, would rise from \$42½ billion during the first half of 1961 to over \$50½ billion during the second half, and would increase further in 1962. On an accrual basis, corporate income taxes in the fiscal year 1962 would yield \$4½ billion more than in the preceding fiscal year.

Increases in payroll tax rates—one-eighth of a percentage point for OASI contributions and a temporary four-tenths of a percentage point to recover the costs of the temporary extended unemployment compensation program—and higher employment would raise social insurance contributions by about \$2 billion. Excise taxes, customs receipts and other indirect business taxes are projected almost \$½ billion higher than fiscal 1961 liabilities.

Federal purchases reflect defense expansion

Outlays for national security, which in the January Budget were scheduled to remain at about the 1961 level, are programed to increase by \$4½ billion, and will be the prime factor in the fiscal 1962 rise in Federal buying. The bulk of this rise—about \$4 billion—is to go for Department of Defense military outlays (table 4).

Increases in the number of active duty personnel are a major factor in the calculated rise of \$1 billion in personnel as well as in the additional \$1 billion

Table 2.—Reconciliation of Estimated Federal Receipts and Expenditures, Budget and National Income Accounts, Fiscal 1962

(Billion dollars)	
RECEIPTS	
Budget receipts.....	\$2.1
Less: Intragovernmental transactions.....	4.0
Receipts from exercise of monetary authority.....	24.5
Plus: Trust fund receipts.....	
Equals: Federal receipts from the public (consolidated cash receipts).....	\$2.0
Adjustments for agency coverage:	
Less: District of Columbia revenues.....	.3
Adjustments for netting and consolidation:	
Plus: Contributions to Federal employees' retirement funds, etc.....	1.8
Less: Interest, dividends, and other earnings.....	1.2
Adjustments for timing:	
Plus: Excess of corporate tax accruals over collections; personal taxes, social insurance contributions, etc.....	3.2
Adjustments for capital transactions:	
Less: Realization upon loans and investments, sale of government property, etc.....	1.1
Equals: Receipts—national income accounts.....	\$5.2
EXPENDITURES	
Budget expenditures.....	\$1.4
Less: Intragovernmental transactions.....	4.0
Accrual interest and other non-cash expenditures (net).....	(2)
Plus: Trust fund expenditures.....	26.7
Government-sponsored enterprise expenditures (net).....	.4
Equals: Federal payments to the public (consolidated cash expenditures).....	\$11.1
Adjustments for agency coverage:	
Less: District of Columbia expenditures.....	.4
Adjustments for netting and consolidation:	
Plus: Contributions to Federal employees' retirement funds, etc.....	1.8
Less: Interest received and proceeds of government sales.....	.3
Adjustments for timing:	
Plus: Excess of interest accruals over payments on savings bonds and Treasury bills.....	.4
Excess of deliveries over expenditures.....	.8
Miscellaneous.....	—1.7
Less: Commodity Credit Corporation foreign currency exchange.....	1.3
Adjustments for capital transactions:	
Less: Loans—FNMMA secondary market mortgage purchases, redemption of IMF notes, etc.....	2.9
Trust and deposit fund gains.....	1.1
Purchase of land and existing assets.....	.1
Equals: Expenditures—national income accounts.....	\$11.4

* Less than \$50 million.

† Consist of transactions in financial assets and liabilities, land and secondhand assets. Acquisition of newly produced tangible assets are included in expenditures for goods and services as defined in the national income and product accounts.

‡ Includes net change in Commodity Credit Corporation guaranteed non-recourse loans and increase in clearing account.

Sources: Bureau of the Budget and U.S. Department of Commerce, Office of Business Economics.

increase in operation and maintenance expenditures. Purchases of equipment are scheduled to rise by \$1½ billion, with the larger share going for conventional weapons and equipment—items with comparatively short delivery periods. Outlays for aircraft, missiles, and ships are expected to rise somewhat less in the aggregate. Expenditures for research and development and for military assistance to other nations are programed to increase moderately. Military construction is the only major category of defense spending scheduled to decline.

Aside from actual defense purchases, the economy in the current fiscal year will be affected by the placement of defense orders which will be paid for in the following fiscal years. Total orders to be placed during the fiscal year would amount to \$52½ billion and exceed planned expenditures by about \$4 billion. This constitutes an increase of about \$5½ billion over the value of orders received by business during fiscal 1961. In addition, the Defense Department expects to make commitments to business for \$3 billion worth of orders to be placed during fiscal year 1963.

Other national security programs, with the exception of atomic energy developments, are also to expand. The activities of the National Aeronautics and Space Administration and Civil Defense spending are to be stepped up considerably. While no net additions to the physical stockpile of strategic materials are planned, the cost of the program will go up because of higher replacement costs.

Nondefense purchases are programed to increase by about \$½ billion over fiscal year 1961. As compared with the January Budget, the projected increase is somewhat larger for non-defense purchases other than those of the Commodity Credit Corporation. For the Commodity Credit Corporation the projected increase is somewhat less than in the January Budget. This is primarily due to a continued shift in the Commodity Credit Corporation's activities away from purchases of commodities to programs designed to reduce output through the withdrawal of land from production. Expenditures

under these programs are reflected in the national income accounts as subsidy payments rather than purchases of goods and services. In spite of this shift, net CCC purchases are estimated to exceed fiscal 1961 levels because of the large 1961 crops, and because cotton sales are expected to fall below fiscal 1961 levels.

Relatively small increases for the conduct of foreign affairs, the conservation and development of natural resources and the improvement and modernization of the Federal airways system account for the remainder of the increase in Federal purchases.

While a significant part of the future rise in GNP will come from the direct purchases of goods and services by the Federal Government, the stimulus during the remainder of the current fiscal year will not be quite so large as the fiscal year 1961 and 1962 totals

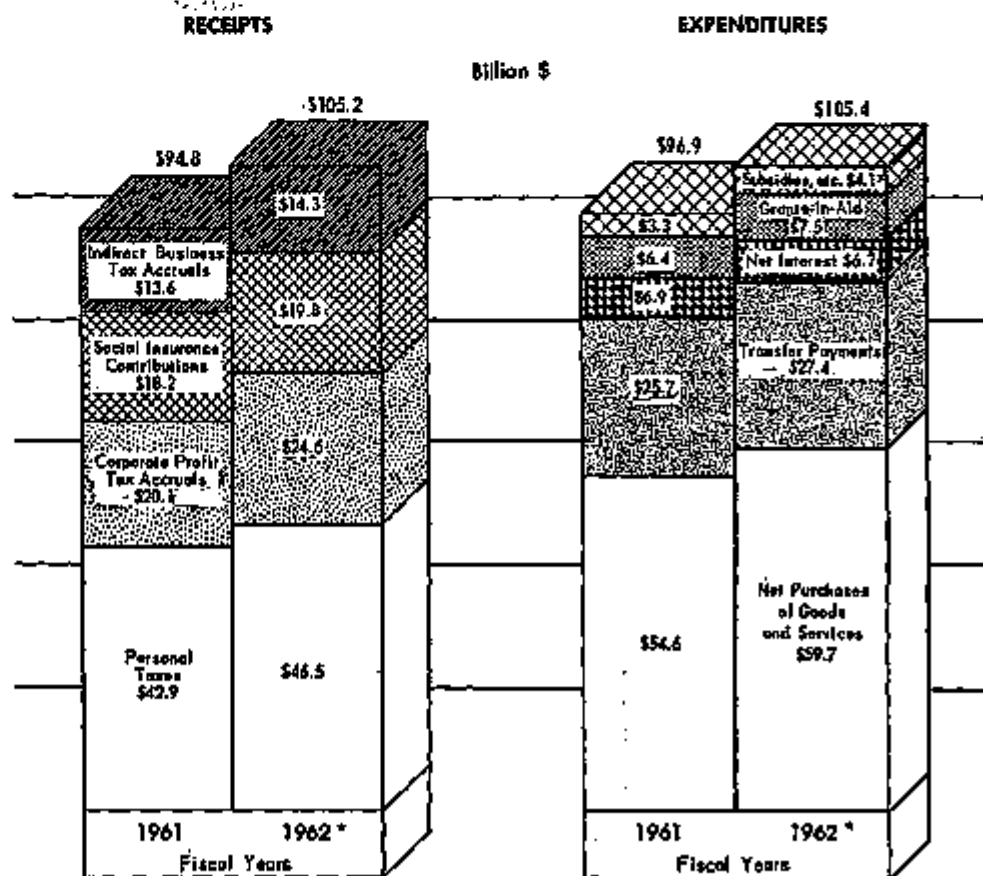
would indicate. As may be seen from table 3, Federal purchases in the third quarter of calendar 1961 had already reached an annual rate of about \$57½ billion, as compared with the fiscal year average of \$54½ billion; the excess of second quarter 1962 purchases over the 1962 fiscal year average of \$59½ billion is expected to be somewhat less.

Other Federal expenditures to rise

Government expenditures, in addition to influencing GNP through the procurement of goods and services, contribute to the flow of income through various other types of programs, e.g., grants-in-aid to States, social security benefits and other transfer payments, subsidies, etc. These programs are budgeted to rise by a total of about \$3½ billion, which is considerably more than the average expansion registered in the preceding couple of years.

FEDERAL RECEIPTS AND EXPENDITURES ON NATIONAL INCOME AND PRODUCT BASIS

Rise in Receipts Expected to Exceed Increase in Expenditures
From Fiscal 1961 to Fiscal 1962



U. S. Department of Commerce, Office of Business Economics

The main factor in this change is a \$1 billion rise in subsidies resulting from the new programs for the retirement of land from feed grain and wheat production mentioned above. Because the proposed postal rate increase was not enacted, government enterprises will continue to show a deficit of at least the past year's magnitude.

Transfer payments to persons are scheduled to rise by slightly under \$2 billion, primarily because the Social Security Amendments Act of 1961 liberalized existing, and made available new, benefits. In addition, veterans' pensions and defense research grants will rise slightly. These increases will be partially offset by a decrease in

payments for unemployment compensation as the business situation continues to improve.

While cash grants for foreign aid, which are reflected as transfer payments to foreign countries in the national income accounts, are not scheduled to change materially from their 1961 levels, other activities under the foreign aid programs are budgeted to increase by under \$½ billion. About half of this will be in financial capital assistance, such as development loans and the subscription to the Inter-American Development Bank, items which by their nature are excluded from the national accounts. The remainder, which includes grants of surplus commodities to other nations, is included in the purchases of goods and services.

The decline of interest rates during fiscal 1961 brought interest payments by the end of the year down to about \$½ billion below the annual average of \$7 billion. Although the increase in the national debt will bring about an increase in interest payments from the end of fiscal 1961 level, it is not expected by itself to be quite large enough to bring the year as a whole up to the preceding year's average.

Grants-in-aid to State and local governments are estimated to rise by \$1 billion. The bulk of this is accounted for by the highway construction and new public assistance programs, such as the

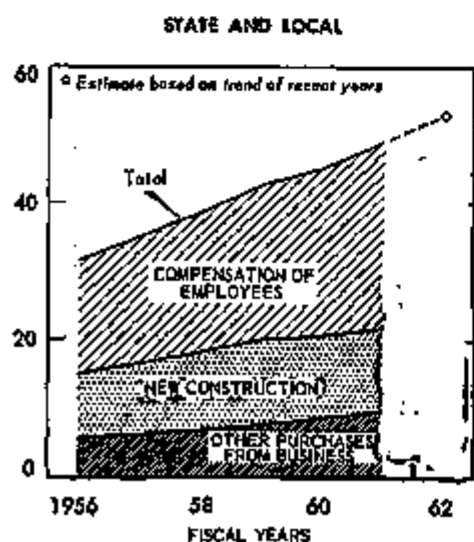
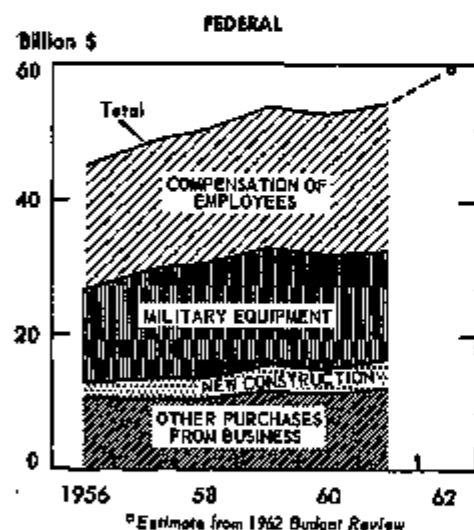
Table 4.—Defense Department Military Budget Expenditures, Fiscal Years 1960-62
(Billion dollars)

	Fiscal Year			
	1960	1961	1962 Jan-uary 1961 Esti-mate	1963 Octo-ber 1961 Esti-mate
Total.....	42.8	44.7	46.7	48.4
Military personnel.....	11.7	12.1	12.4	12.2
Operation and maintenance.....	18.2	18.0	18.7	18.8
Defense procurement.....	14.5	14.7	14.4	14.1
Research, development, test, and evaluation.....	3.7	4.5	4.4	4.7
Construction.....	1.6	1.6	1.9	1.2
Military assistance.....	1.6	1.4	1.8	1.8
Revolving funds and unallo-cated.....	-0.4	-0.3	-0.2	-0.3
Civil Defense.....				0.2

Sources: Bureau of the Budget and Department of Defense.

GOVERNMENT PURCHASES OF GOODS AND SERVICES

Up in Fiscal 1962



U.S. Department of Commerce

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Table 3.—Federal Government Receipts and Expenditures on National Income and Product Account Basis Fiscal 1960-62

(Billion dollars)

	Fiscal		Fiscal 1962 estimate	1960		1961		
	1960	1961		III	IV	I	II	III
	Actual			Seasonally adjusted at annual rates				
Federal Government receipts.....	94.1	94.3	101.2	95.4	91.6	92.5	96.8	+ 93.7
Personal tax and nontax receipts.....	42.1	42.2	40.5	42.5	43.1	42.6	43.0	44.5
Corporate profits tax accruals.....	21.7	20.1	24.0	20.3	20.0	19.0	21.2	20.0
Indirect business tax and nontax accruals.....	13.8	13.8	14.2	13.8	13.3	12.3	12.0	14.0
Contributions for social insurance.....	16.0	15.0	19.5	19.0	17.6	18.0	18.4	19.7
Federal Government expenditures.....	91.0	96.0	101.4	94.2	94.3	96.0	101.1	102.5
Purchases of goods and services.....	32.0	31.0	30.7	34.0	33.0	34.7	36.0	37.4
Major national security.....	46.6	46.8	45.4	45.7	47.2	48.8	48.8	48.0
Transfer payments.....	22.7	22.7	24.0	23.3	23.0	26.0	27.1	27.8
To persons.....	21.3	21.2	24.0	22.7	23.7	24.8	25.7	26.1
Foreign (net).....	1.0	1.0	1.0	1.5	1.0	1.0	1.5	1.7
Grants-in-aid to State and local governments.....	0.5	0.5	7.0	6.2	8.0	7.1	6.8	6.4
Net interest paid.....	0.8	6.9	6.7	7.1	7.0	6.8	6.6	6.4
Subsidies less current surplus of government enterprises.....	2.8	3.2	4.1	2.9	2.9	3.0	4.0	4.5
Surplus or deficit (—) on income and product account.....	2.2	-2.0	-0.2	1.4	6.4	-5.5	-4.3	-2.8

* 1962 estimate from 1962 Budget Review. ** estimate.

Sources: Bureau of the Budget, Treasury Department, Department of Commerce.

medical care for the aged program enacted last year and the new temporary program for dependent children of unemployed parents enacted this year.

(Continued on p. 16)

proportion of the population with medical care and hospitalization on a partly prepaid basis. The larger base, more adequate care, and increasing costs have all tended to substantially increase outlays for medical care and created demand for constantly expanding facilities.

The upward movement in the volume of private education expenditures in the postwar period is due primarily to the larger proportion of young people enrolled in college—from 15 percent of

the 18-24 year group in 1947 to 21 percent in 1960. The number of persons in this age bracket is just getting back to the 1947 level, having declined through 1952 and risen steadily since. The recent rise in the college age group has accelerated the growth in outlays for private education. The rise in current dollars has been much sharper as tuition costs have advanced substantially. The steadily rising contributions by Government units to education is, of course, not included here.

Growth in personal business outlays

The category of consumer expenditures labeled personal business includes outlays for many household financial transactions such as interest payments on consumer debt, brokerage and bank charges, life insurance, legal expenses and others. The increased share of such outlays in total consumer spending is attributable in large part to the growth of interest charges on consumer debt. Such payments have shown a threefold rise over the postwar period and have been one of the fastest growing components of consumer spending.

This large increase is, of course, associated with the growth in borrowing relative to purchases. In 1948 consumer borrowing on durable goods represented almost one-half of consumer expenditures for such goods; in 1960 such borrowing accounted for almost three-fourths. Over this period there was also an increase in the average term of consumer installment loans which further affected interest charges.

The growing personal use of banking facilities and heightened public participation in the financial markets were also responsible for some of the increase in personal business outlays. The steadily rising volume of life insurance programs, many sponsored under labor-management contracts, has further contributed to this growth.

Table 3.—Consumption Expenditures: Distribution by Major Groups

	1929	1939	1948	1953	1960	90 qtr 1961
	(Percent of total)					
Total goods and services ¹	100.0	100.0	100.0	100.0	100.0	100.0
Durable goods.....	11.7	8.9	12.7	14.1	13.6	12.4
Automobiles and parts.....	4.1	3.2	4.1	0.0	5.7	4.8
Furniture and household equipment.....	6.0	5.2	6.7	0.3	5.7	5.5
Other.....	1.6	1.6	1.9	1.8	2.1	2.1
Nondurable goods.....	47.7	52.0	55.4	54.7	56.3	48.8
Clothing and shoes.....	11.0	10.6	11.3	0.4	8.6	8.4
Food and alcoholic beverages.....	28.7	28.4	31.4	28.0	24.3	24.0
Gasoline and oil.....	2.3	2.2	2.5	3.2	3.5	3.4
Semidurable house furnishings.....	0.9	1.0	1.3	1.1	0.9	0.6
Tobacco.....	2.1	2.6	2.3	2.3	2.3	2.3
Other.....	6.6	6.2	6.6	6.0	6.7	6.7
Services.....	38.6	38.1	31.9	25.2	30.2	41.8
Household operation.....	6.1	6.6	4.5	6.0	6.6	6.2
Housing.....	14.5	13.3	9.0	11.8	12.5	13.1
Personal services.....	2.3	9.1	2.2	1.0	1.5	1.9
Recreation.....	2.1	2.3	3.1	1.3	1.0	2.0
Transportation.....	3.2	3.0	3.3	3.5	3.2	3.3
Other.....	13.8	11.8	9.9	11.2	14.4	15.3

¹ Detail may not add to total because of rounding.

Source: Office of Business Economics, Dept. of Commerce.

Expansion of Government Programs

(Continued from p. 10)

State and local expansion to continue

Purchases of goods and services by State and local governments would, on a continuation of recent trends, exceed \$53 billion in the present fiscal year. Increases in purchases by these governmental units have been steady and have averaged more than \$3½ billion over the last 5 fiscal years. Payrolls accounted for the largest share of this advance, reflecting both higher wage

rates and the increasing work force.

New construction outlays for highways, schools, and sanitary facilities, and other purchases from business—equipment, supplies, and services—have also shown a persistent uptrend. In addition, steady rises have been registered in the other expenditures of these units, mainly transfer payments and interest.

A substantial increase in State and

local tax bases will materialize if the economic assumptions underlying the Federal Budget estimates are met. State and local revenues will rise in addition because of increased tax rates and the upturn in Federal grants-in-aid.

With total spending of State and local governments continuing in excess of total receipts, a deficit on income and product account of about the same size as the 1961 fiscal year deficit is expected.